



WEEKLY ECONOMIC DIGEST



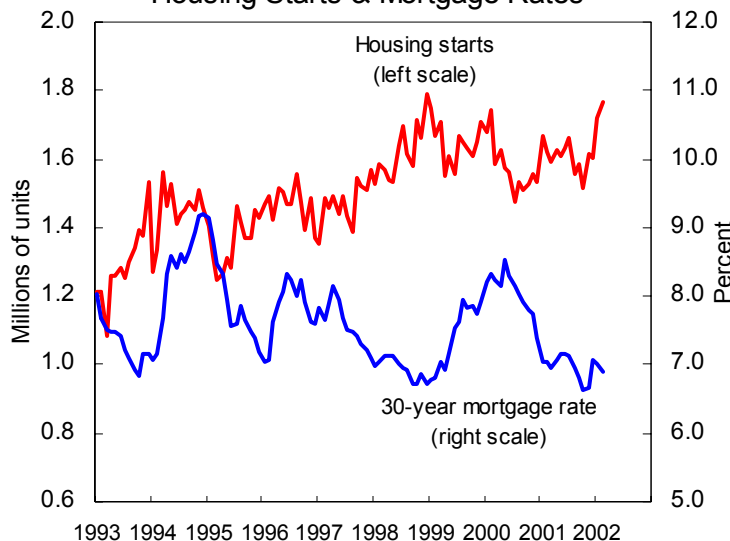
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF

SENATOR JACK REED (D-RI) – VICE CHAIRMAN

March 27, 2002

The Slow Beginnings of a Slow Recovery?

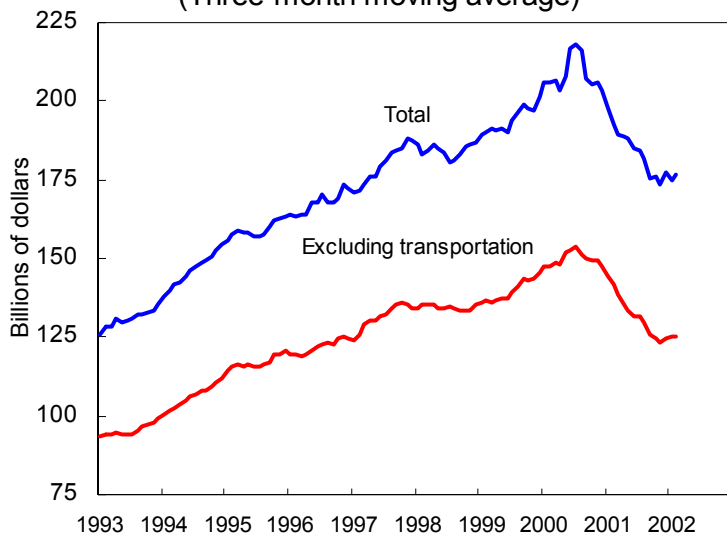
Housing Starts & Mortgage Rates



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002

Source: Bureau of the Census, U.S. Department of Commerce; and Federal Reserve Board.

New Orders for Durable Goods
(Three-month moving average)



1993 1994 1995 1996 1997 1998 1999 2000 2001 2002

Source: Bureau of Census, US Department of Commerce.

- **Imports increased as the U.S. economy strengthened.** The U.S. trade deficit widened by \$3.8 billion in January as imports rose and exports fell slightly. Most analysts believe that widening of the trade deficit reflects the growing strength of the U.S. economy relative to the economies of our trading partners. Imports of consumer goods excluding autos rose by 6.2 percent in January, while imports of capital goods rose to their highest level since the middle of last year.
- **Home building remained strong last month, but sales may be slowing.** Builders started 48,000 more units in February than they did in January. Part of that rise in housing starts can be explained by declining mortgage rates in February as well as the higher than average national temperatures that have prevailed in recent months. However, the recent strength in homebuilding exceeds even what lower rates and a warm winter might have warranted. Although sales of new homes increased by 5.3 percent in February, they remained well below December's pace. The Conference Board's survey of consumers, which suggested that consumer confidence soared in March, indicated that nearly a full percent fewer families plan to buy a house in the next 6 months than was the case in December.
- **New orders for durable goods rose sharply in February as aircraft demand rose.** New orders for durable goods surged by 1.5 percent last month, as orders for aircraft and parts rose 41 percent. Excluding the increases in orders for transportation equipment, new orders for durable goods fell by 1.3 percent in February. Manufacturing inventories declined for the thirteenth consecutive month, leaving factory stocks more than ten percent below year-ago levels.
- **Consumer prices rose at a moderate pace in February.** The consumer price index rose 0.2 percent in February, close to analysts' expectations. The core rate of inflation (which excludes the effects of changes in food and energy prices) was 0.3 percent, up by 0.1 percentage point over the January rate. That slight acceleration in core inflation, however, was largely the result of a one-time increase in the prices of tobacco products, reflecting an increase in federal excise taxes.

| Economy At A Glance | Feb | Jan | Dec | Nov | 2001 Qtr 4 | 2001 Qtr 3 | 2001 Qtr 2 | 2001 Qtr 1 | 2001 | 2000 |
|--|------|------|------|-------|---------------|---------------|---------------|---------------|-------|-------|
| Economic Activity | | | | | | | | | | |
| Real GDP (% growth)* | | | | | 1.4 | -1.3 | 0.3 | 1.3 | 1.2 | 4.1 |
| Industrial Production (% growth) | 4.9 | 2.4 | -3.5 | -3.5 | -6.6 | -4.7 | -5.9 | -6.1 | -3.8 | 4.5 |
| Capacity Utilization (Level, %) | 74.8 | 74.5 | 74.4 | 74.7 | 74.7 | 76.2 | 77.4 | 78.9 | 76.8 | 81.8 |
| Civilian Unemployment Rate (Level, %)* | 5.5 | 5.6 | 5.8 | 5.6 | 5.6 | 4.8 | 4.5 | 4.2 | 4.8 | 4.0 |
| Housing Starts (Thousands) | 1769 | 1721 | 1602 | 1616 | 1579 | 1601 | 1623 | 1627 | 1608 | 1575 |
| Real Disposable Personal Income* (% growth) | | 18.9 | 4.6 | 1.6 | -7.9 | 12.3 | 2.4 | 2.7 | 3.6 | 3.5 |
| Retail Sales (% growth) | 3.3 | -3.8 | 2.9 | -29.7 | 12.3 | -1.3 | 5.5 | 4.8 | 3.5 | 7.6 |
| Personal Saving Rate (Level, %)* | | 1.8 | 0.6 | 0.4 | 0.4 | 3.8 | 1.1 | 1.1 | 1.6 | 1.0 |
| Inflation & Productivity | | | | | | | | | | |
| CPI-U Inflation, All Items (% growth) | 2.4 | 2.4 | -1.2 | -1.2 | -0.3 | 0.7 | 3.1 | 3.9 | 2.8 | 3.4 |
| Core CPI-U Inflation (% growth) | 3.7 | 2.4 | 1.2 | 4.9 | 2.7 | 2.7 | 2.4 | 3.0 | 2.7 | 2.4 |
| Compensation per Hour (% growth) | | | | | 4.1 | 3.6 | 4.1 | 4.5 | 4.1 | 4.4 |
| Output per Hour (% growth) | | | | | 5.2 | 1.1 | 2.1 | -0.1 | 1.9 | 3.3 |
| Financial Markets | | | | | | | | | | |
| T-Bill Rate, 3-month (Level, %) | 1.7 | 1.7 | 1.7 | 1.9 | 1.9 | 3.2 | 3.7 | 4.8 | 3.4 | 5.8 |
| T-Note Rate, 10-years (Level, %) | 4.9 | 5.0 | 5.1 | 4.7 | 4.8 | 5.0 | 5.3 | 5.1 | 5.0 | 6.0 |
| Federal Funds Rate (Level, %) | 1.7 | 1.7 | 1.8 | 2.1 | 2.1 | 3.5 | 4.3 | 5.6 | 3.9 | 6.2 |
| Dow Jones Industrial Avg (Index Level) | 9891 | 9924 | 9980 | 9722 | 9641 | 9934 | 10669 | 10513 | 10189 | 10735 |

Sources: Bureau of Economic Analysis, US Department of Commerce; US Bureau of the Census; Board of Governors of the Federal Reserve System; Bureau of Labor Statistics, US Department of Labor; and, Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. Compensation is the Employment Cost Index for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

* Subject to revision this week or next.

Major Economic News Due in Coming Weeks:

- **Corporate Profits, Fourth-Quarter 2001** [Release: March 28, 2002]
- **Personal Income and Consumption Expenditures, February** [Release: March 29, 2002]
- **The Employment Situation, March** [Release: April 5, 2002]